

An Introduction to Derivatives, (Two Days)

This workshop explains both exchange traded and over the counter products. It is designed for those who need to know more about derivatives. The workshop addresses how the products work, what they are used for and the risks they contain. The course covers the following:

- An introduction to exchange traded and OTC products
- How these products work & how they are used
- The main market and operational risks that arise
- Valuations and credit exposures
- Operational issues involved

Training will be in a workshop format. This will include a mixture of presentation and case study material. The course is designed for up to ten staff.

Below is a summary of the workshop content. The content of each day has been placed in a logical sequence and addresses the key topics.

Day One

Introduction

- What a derivative is
- Why derivatives are used
- Why the market has grown
- Exchange traded derivatives
- Over the counter derivatives
- Derivative terminology

Interest rate products

Interest rate futures

- Underlying
- Tick value
- Pricing
- Margins
- Simple trades
- Practical application

Forward rate agreements

- Pricing
- Market use
- Settlement

Interest rate swaps & currency swaps:

- What they are
- How they can be used
- Hedging:
 - New issues & debt
 - Asset swaps
- Trading: rates & spreads
 - How swaps are valued
 - How they are documented
 - Importance of the confirmation
 - Credit risk

Day Two

Options:

- Option terminology
- The four option positions
- What influences the option price

Interest rate options

- Caps / floors /swaptions
- How they work
- Practical application

Credit products:

- Why credit trading is growing

Credit default swaps, (CDS)

- How a CDS trade works
- What the premium is
- The main terms used
- What happens if there is a credit event
- Risks with CDS transactions
- How CDS are used

Risk mitigation

- Collateral agreements
- Margins
- Break clauses

Operational issues

- Trade Lifecycle
- Trade capture
- Accuracy
- Confirmations

How derivatives have caused problems

- Selected case studies where financial institutions have experienced losses as a result of weak controls surrounding derivatives

End of workshop & review

